

Message Text

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53

ACTION ARA-10

INFO OCT-01 ISO-00 IO-10 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FRB-03 PA-01 PRS-01 NEA-10 AF-06 EA-06 /126 W

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TO SECSTATE WASHDC 6593

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E.O. 11652: N/A

TAGS: EFIN, ENRG, EC

SUBJECT: GOE GIVES FURTHER INDICATIONS OF COMING LIBERALIZATION
OF ITS OIL POLICIES

REF: QUITO 5330

1. SUMMARY: MINISTRY OF NATURAL RESOURCES PUBLISHED JULY 20
A LENGTHY DEFENSE OF GOE'S RECENT LOWERING OF PETROLEUM PRICES,
INCLUDING HARSH CRITICISMS OF THE MINISTRY'S OWN PREVIOUS
POLICIES UNDER THE FORMER MINISTER, GUSTAVO JARRIN AMPUDIA.
COMING ON THE HEELS OF A SPEECH BY THE CURRENT MINISTER, LUIS
SALAZAR (REF A), IN WHICH HE STRESSED THE NEED FOR THE GOE TO
OFFER ADEQUATE INCENTIVES FOR NEW PETROLEUM EXPLORATION, THE
MINISTRY'S STATEMENT EVIDENTLY IS PART OF A GOE EFFORT TO
PREPARE THE ECUADOREAN PUBLIC FOR REFORM OF THE HYDROCARBONS
LAW. HOWEVER, OIL COMPANY OFFICIALS EXPECT NO SIGNIFICANT
CHANGE BEFORE THE END OF THE YEAR AS REGARDS GOE POLICIES RE
OIL EXPLORATION. END SUMMARY.

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2. THE MINISTRY OF NATURAL RESOURCES ISSUED A LENGTHY PRESS

RELEASE PUBLISHED JULY 20, DEFENDING GOE'S LOWERING OF PETROLEUM PRICES. THE STATEMENT CONSISTS MAINLY OF A REHASH OF THE GOE'S OFT-STATED EXPLANATIONS FOR A DECLINE IN PETROLEUM PRICES. FOR THE FIRST TIME, HOWEVER, THE MINISTRY UNEQUIVOCALLY BLAMES JARRIN'S PRICING POLICIES FOR THE DECLINE IN SALES.

3. THE STATEMENT NOTES THAT THE OPEC MEETING OF SEPTEMBER 1974 RECOMMENDED THAT EACH MEMBER GOVERNMENT INCREASE ITS TAKE BY THREE-AND-A-HALF PERCENT ABOVE THE THEN CURRENT LEVEL, AND COMMENTS: "IF THE ADVISORY COMMISSION OF THE MINISTRY OF NATURAL RESOURCES HAD OBSERVED THIS RECOMMENDATION, THE COUNTRY WOULD NOT HAVE HAD THE DIFFICULTIES WHICH IT HAS SUSTAINED. WITHOUT MAJOR STUDY--FOR THERE ARE NO REPORTS IN MINISTRY FILES JUSTIFYING IT--TAXES WERE RAISED...BY 8 PERCENT, WHEN THE MAXIMUM (OPEC) RECOMMENDATION WAS 3.5 PERCENT. ROYALTIES WERE RAISED 8.88 PERCENT. BOTH INCREASES GO BEYOND THE RECOMMENDATION (THOUGH NOT A RESOLUTION) OF OPEC". STATEMENT STRESSES THAT "NATIONS WITH HIGH PRODUCTION COSTS WILL FIND IT IMPOSSIBLE TO SELL THEIR OIL".

4. MINISTRY ARTICLE ALSO STATES: "A DEBATE HAS REVOLVED ABOUT THE APPROPRIATENESS OF ECUADOR'S ENTRY INTO OPEC. THIS IS NOT THE TIME FOR SUCH A DISCUSSION, SINCE THE FACT IS NOW IRREVERSIBLE. EVEN IF ECUADOR HAD NOT ENTERED OPEC, IT WOULD HAVE HAD TO FOLLOW A SIMILAR POLICY. THE OFFENSIVE TAKEN BY MAJOR POWERS ADEQUATELY DEMONSTRATES THE MEANING THAT OPEC HAS FOR DEVELOPING COUNTRIES. LIKEWISE, ECUADOR HAS BEEN AND IS A FAITHFUL OBSERVER OF OPEC OBLIGATIONS, AND THE GOVERNMENT HAS NOT BROKEN IN ANY WAY ITS MILITANT SUPPORT OF THIS ORGANIZATION." EMBASSY IS TRANSMITTING FULL TEXT OF MINISTRY STATEMENT BY AIRGRAM.

5. DESPITE THESE INDICATIONS OF CHANGES IN EXPLORATION POLICY, OIL COMPANY OFFICIALS ARE NOT OPTIMISTIC ABOUT ANY REFORMS UNTIL THE END OF THE YEAR. A RELIABLE US OIL COMPANY SOURCE TOLD ACTING DCM AND EMBOFF JULY 28 THAT GULF HAD REQUESTED A PROGRAM FROM THE MINISTRY BY THIS SEPTEMBER, BUT GULF DOES NOT EXPECT A PROPOSAL UNTIL THE END OF THE YEAR. HE SAID GOE OFFICIALS HAVE INDICATED THEY ARE CONSIDERING LIMITED OFFICIAL USE

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TAX CREDITS AS A POSSIBLE CONCESSION. COMPANY OFFICIALS HAVE CONSISTENTLY MAINTAINED THAT THE JULY 9 PRICE DECREASE OF 43 CENTS IS NOT SUFFICIENT TO JUSTIFY FURTHER INVESTMENT. OUR SOURCE SAID THAT MARKETING OF ECUADOREAN CRUDE IS NOW EASIER, ALTHOUGH ECUADOREAN CRUDE STILL REMAINS SLIGHTLY OVERPRICED, AND MARKETING MAY THEREFORE BECOME MORE DIFFICULT AGAIN IN THE NEAR FUTURE.

6. COMMEND: THE LACK OF INVESTMENT IS NOW REACHING A CRITICAL POINT. THE COMPANIES ASSERT THAT THEY COULD NOT ATTAIN AND SUSTAIN A PRODUCTION RATE OF 225,000 BPD UNTIL THE END OF THE YEAR WITHOUT FURTHER INVESTMENT. NEW INCENTIVES TO ATTRACT EXPLORATION COMPANIES COULD BE EMBARRASSINGLY UNSUCCESSFUL FOR THE GOE UNLESS THE GOE SOFTENS TEXACO-GULF'S PRESENT CONDITIONS, BECAUSE NO OTHER COMPANY WILL INVEST IF TEXACO-GULF IS LOSING MONEY (AS IT CLAIMS TO BE). ALL INDICATIONS ARE THAT NEW INCENTIVES WILL NOT PROVE EFFECTIVE UNLESS THEY ARE SUBSTANTIAL AND GENEROUS.
BREWSTER

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Margaret P. Grafeld
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